

GENERAL GOVERNMENT AND STATEWIDE ISSUES

This chapter describes items in the Governor's Budget that are statewide issues or related to various departments.

ECONOMIC DEVELOPMENT

The Budget continues the Administration's commitment to support economic development by building upon the success of the California Competes program and making investments that spur further job growth in California. The Governor's Office of Business and Economic Development (Go-Biz) serves as the state's lead entity for economic strategy, including business incentives and services, private sector investment, export promotion, permit assistance, innovation, and entrepreneurship.

CALIFORNIA COMPETES

The California Competes grant program was created in the 2021 Budget Act to expand access to the California Competes Tax Credit program to businesses that cannot fully benefit from a tax credit, but still present vital job growth and investment opportunities that are at risk of taking place outside of California. The California Competes grant program is one of the state's main incentive programs for supporting companies in emerging industry sectors and those with moderate to high projected growth that are

ready for expansion but may not have sufficient tax liability. During the grant program's three years of one-time funding from 2021-22 through 2023-24, GO-Biz awarded grants to 23 businesses that collectively committed to more than \$6.5 billion of investments in the state, creating over 18,000 new full-time jobs.

The Budget proposes \$60 million one-time General Fund to award new grants in 2025-26.

SUPPORTING JOBS

The Budget proposes investments that support job creation and growth for California's economy.

NATIONAL SEMICONDUCTOR TECHNOLOGY CENTER

In November 2024, the U.S. Department of Commerce and Natcast, the non-profit entity designated by Commerce to operate the National Semiconductor Technology Center (NSTC), announced Sunnyvale as the location for the Creating Helpful Incentives to Produce Semiconductors (CHIPS) for America Design and Collaboration Facility (DCF). Leveraging California's unmatched talent and world-leading research and education institutions, this facility is expected to drive more than \$1 billion in research funding and create more than 200 direct jobs over the next 10 years. The DCF will be multi-functional, serving as a critical location for the operations and administrative functions of Natcast and the NSTC, including:

- Conducting advanced research in chip design, electronic design automation, chip and system architecture, and hardware security;
- Hosting programmatic activities, including the NSTC Workforce Center of Excellence, Design Enablement Gateway, and a future Investment Fund; and
- Convening NSTC members and stakeholders from across the semiconductor ecosystem.

The Budget proposes \$25 million one-time General Fund in 2025-26 to reimburse Natcast for capital expenditures to build the facility.

REGIONAL INITIATIVE FOR SOCIAL ENTERPRISES PROGRAM

The Budget proposes \$17 million one-time General Fund for the Regional Initiative for Social Enterprises Program (CalRISE). Initially established in 2022, CalRISE provides financial and technical assistance to employment social enterprises to help them build capacity to create and retain jobs in communities. Employment social enterprises are businesses that provide jobs, on-the-job training, and specialized support to people who face high barriers to work, including homelessness, previous incarceration, substance use or mental health issues. This investment aims to connect employment social enterprises with the thirteen California Jobs First Regional Collaboratives, aligning their job creation and training programs with the industry sectors prioritized by each of the Collaboratives.

GOVERNOR'S OFFICE OF SERVICE AND COMMUNITY ENGAGEMENT

The Governor's Office of Service and Community Engagement (GO Serve) was established as an independent department in the 2024 Budget Act. GO Serve consists of the Office of Community Partnerships and Strategic Communications, California Volunteers, and the Youth Empowerment Commission. GO Serve elevates paid service and volunteerism, promotes more youth and community engagement, and advances public awareness and outreach campaigns to tackle our state's most pressing challenges.

CALIFORNIANS FOR ALL COLLEGE CORPS

The Californians for All College Corps, established in 2021, is a partnership with the University of California, California State University, California Community Colleges, and private California university systems to support lower debt college pathways for low-income students, service opportunities, and career development. GO Serve has awarded funding to more than 45 public and private higher education campuses across the state, that currently supports over 3,000 service positions.

The Budget proposes \$5 million General Fund in 2025-26, and \$83.6 million ongoing General Fund beginning in 2026-27, to continue and expand the College Corps program that would otherwise end July 30, 2026. Overall funding for College Corps is \$68.1 million General Fund in 2025-26 and \$83.6 million General Fund ongoing. These resources will expand service opportunities to more than 4,000 undergraduate students

annually and partnerships with over 50 universities, including CSU and UC campuses, community colleges, and private universities. This funding will also be used to establish an alumni and workforce development program to support employment pathways for fellows.

BELONGING CAMPAIGN

The Budget proposes \$5 million one-time General Fund for the Office of Community Partnerships and Strategic Communications to launch a Belonging Campaign by January 2026. The Belonging Campaign will help communities better identify pathways to social connectedness and engagement. The Office will initiate research projects to evaluate how Californians define belonging and how connected they feel to their communities, develop a strategy to improve the state's efforts in engaging community, and encourage increased applications for the state's service corps.

CANNABIS

The state has demonstrated its commitment to fostering a sustainable and equitable legal cannabis market through investments and reforms. Efforts include reforming the cannabis tax structure, assisting local governments in transitioning licensees from provisional to annual licenses, and implementing programs such as the High-Road Cannabis Tax Credit, Cannabis Equity Tax Credit, and the Cannabis Equity Retailer Vendor Compensation Program. Actions taken to date have reduced financial and administrative barriers, advanced equity within the industry, and strengthened the regulated market.

UPDATED ALLOCATION OF CANNABIS TAX FUND

Proposition 64 specifies the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis and the past effects of its criminalization. Once these priorities have been met, the remaining funds are directed to what are referred to as Allocation 3 programs—youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities.

The Budget estimates \$468.2 million will be available for Allocation 3 programs in 2025-26 as follows:

- **Education, prevention, and treatment of youth substance use disorders and school retention**—60 percent (\$281 million)
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation**—20 percent (\$93.6 million)
- **Public safety-related activities**—20 percent (\$93.6 million)

FARM TO SCHOOL

The Budget proposes \$24.9 million one-time General Fund for the Department of Food and Agriculture to advance the California Farm to School Network, the California Farm to School Incubator Grant Program, Climate Smart Technical Assistance, and further the recommendations of the Farm to School Roadmap for Success.

The California Farm to School Program cultivates equity, nurtures students, builds climate resilience, and creates scalable and sustainable change in the school food system through the California Farm to School Incubator Grant Program, the California Farm to School Network, and the California Farm to School interagency working group. The program currently serves 49 percent of all California schoolchildren, providing proven economic, environmental, and equity benefits to California's highest need communities. The California Farm to School Incubator Grant Program has been oversubscribed and continues to increase in demand in each application period.

The requested resources will support the California Farm to School Incubator Grant Program, the California Farm to School Network regional events, conferences, trainings, and Climate Smart Technical Assistance for producers.

MUSEUM OF TOLERANCE

The Budget proposes \$10 million one-time General Fund for capital improvements to continue the modernization and expansion of the Museum of Tolerance, which has provided diversity training to more than 75,000 California teachers and more than 125,000 California criminal justice professionals.

The Museum of Tolerance is the educational arm of the Simon Wiesenthal Center, an internationally renowned Jewish human rights organization. The only museum of its kind in the world, the Museum of Tolerance is dedicated to challenging visitors to understand the Holocaust in both historic and contemporary contexts and confront all forms of prejudice and discrimination in the world today, including antisemitism.

CALIFORNIA STATE LIBRARY PARKS PASS

The Budget proposes \$6.8 million one-time General Fund for the continuation of the California State Library Parks Pass program. In partnership with the First Partner's Office and the California State Library, the Department of Parks and Recreation is providing free vehicle day-use entry to over 200 participating state park units operated by State Parks for check out to library-card holders. The California State Library Parks Pass is valid for entry of one passenger vehicle with capacity of nine people or less or one highway licensed motorcycle.

To date, a total of 33,000 park passes have been distributed to California's public libraries, including tribal libraries, throughout the state.

CALIFORNIA INDIAN HERITAGE CENTER

The Budget proposes \$6 million from the Natural Resources and Parks Preservation Fund and \$3 million in reimbursement authority from the State Parks and Recreation Fund to continue the work led by California Native American tribes, Native community leaders, and State Parks in building the first-ever California Indian Heritage Center in West Sacramento at the confluence of the American and Sacramento Rivers.

These funds will support the next steps in building the Center through preparing working drawings of the facilities and beginning initial construction of immediate public use improvements. The reimbursements will be accomplished through fundraising efforts with community partners. Once built, the California Indian Heritage Center will serve as a place for California Native American tribes to gather the public to reflect on tribal cultural preservation and land stewardship, and draw visitors from across the world to engage and celebrate the living cultures of California tribal communities.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) continues to modernize its operations, enhancing field office services and expanding alternative service channels. However, the Budget currently projects that the Motor Vehicle Account (MVA), the DMV's primary funding source, will be insolvent in 2025-26 absent reductions and funding shifts, which will have negative impacts on the DMV's modernization efforts and field office wait times if not addressed.

The Budget proposes MVA offsets to maintain a positive balance in the account. This includes:

- **State Air Resources Board Expenditures**—A transfer of \$85 million Air Pollution Control Fund in 2025-26 and a transfer of \$81 million Greenhouse Gas Reduction Fund in 2025-26 to the MVA for offsetting expenditures of the State Air Resources Board related to its Mobile Source Program. Funds for these transfers come from available fund balances and funding made available from Proposition 4 backfills. See the Climate Change and Environment Chapter.

Given the projected fiscal constraints in the MVA by 2025-26, the Administration will continue to prioritize fiscal discipline and will set a high bar for any new workload or initiatives beyond the DMV's existing operational priorities. By focusing on core operational priorities, the DMV will focus on serving Californians while navigating the MVA's fiscal constraints.

CREATING A NEW CONSUMER PROTECTION AGENCY

The new California Consumer Protection Agency is responsible for fostering an equitable and inclusive California by licensing and regulating over 4 million professionals and businesses and protecting consumers. The Agency works to protect consumers by continuously improving enforcement efforts and modernizing technology to address emerging issues that may adversely impact consumers.

The state will build upon this foundation by focusing on consumer protection initiatives within the new California Consumer Protection Agency. The Agency will enhance how consumers and businesses interact with government processes, offering innovative solutions that foster trust, efficiency, and equity.

Establishing a dedicated agency for consumer services and business oversight will strengthen licensing and enforcement activities, thereby protecting consumers and entities licensed and regulated by the various departments, boards, and bureaus within the Agency.

More details will be provided in the spring through a Reorganization Plan submitted to the Little Hoover Commission. See the Housing and Homelessness Chapter for information on the proposed California Housing and Homelessness Agency.

GENERATIVE ARTIFICIAL INTELLIGENCE PROCESSES

On September 6, 2023, the Governor signed Executive Order N-12-23, which directs the Government Operations Agency (GovOps), the California Department of General Services (DGS), and the California Department of Technology (CDT) to update the state's project approval, procurement, and contracting processes for Generative Artificial Intelligence (GenAI) related efforts using results from potential GenAI pilot projects. In 2024, GovOps, CDT, the Office of Data and Innovation (ODI) and DGS initiated five pilot projects using GenAI applications. The first cohort is now completing initial Proof-of-Concept testing and evaluation where many promising results have already been found. For example, the California Department of Transportation is testing how GenAI can make more effective and efficient decisions using available data to improve overall traffic conditions and safety. Building upon the results of the first cohort, additional GenAI efforts are underway. The Department of Housing and Community Development (HCD) is seeking potential GenAI models to assist in analyzing lengthy Housing Element Annual Progress Reports, required of all local governments to demonstrate adequate planning has been completed. GenAI can reduce the time staff spend reviewing these reports, allowing HCD to direct its resources toward other priorities such as enforcement and statewide housing and homelessness planning.

Based on the success of these solutions, additional opportunities for improvement to current state processes have been identified. The state is leveraging lessons learned from the Technology Modernization Funding model established in 2021. CDT along with GovOps, ODI, DGS, and the Department of Finance are reviewing the current project approval lifecycle process for technology projects to streamline the project delivery lifecycle and provide meaningful and timely oversight of projects. Some of the proposed changes will streamline internal administrative procurements, CDT project approvals and oversight processes, and reassess how technology projects are currently funded. Additional details will be provided in the spring.

EDUCATION AND WORKFORCE DEVELOPMENT COORDINATING COUNCIL

The Budget proposes \$5 million General Fund in 2025-26 and ongoing for GovOps to establish a planning and coordinating entity to bring together TK-12 education, higher education and state economic and labor agencies to improve coordination of resources and initiatives across state government in alignment with recommendations from the Master Plan for Career Education. See the Higher Education Chapter for more information on the Master Plan for Career Education.

CALIFORNIA EDUCATION LEARNING LAB

The Budget transfers the California Education Learning Lab (Learning Lab) from the Governor's Office of Land Use and Climate Innovation (LCI) to GovOps to further streamline efforts and enable LCI to focus on its core responsibilities. Specifically, the Budget proposes a net-zero transfer of resources totaling \$5.5 million General Fund in 2025-26, and \$4 million General Fund in 2026-27 and ongoing, and one position. As the state continues to advance improved coordination and collaboration of initiatives and resources through the Master Plan for Career Education and drive public sector innovation to leverage technology to better serve Californians, this transfer will support GovOps collaboration and coordination on the goals of the Learning Lab.

EMPLOYEE COMPENSATION AND BARGAINING

The Budget includes \$917.8 million (\$368.2 million General Fund) for increased employee compensation, health care costs for active state employees, and retiree health care prefunding contributions for active employees in 2025-26. Included in these costs are collectively bargained salary and benefit increases resulting from contracts and side letter negotiations. The Budget also includes funding for the 2026 calendar year projected increases in health care and dental premiums and enrollment.

Collective bargaining negotiations will commence with seven bargaining units representing Attorneys and Hearing Officers; Correctional Officers; Professional Engineers; Stationary Engineers; Physicians, Dentists, and Podiatrists; Psychiatric Technicians; and Health and Social Services/Professionals, whose contracts or side letter agreements will expire in summer 2025.

PAYING DOWN UNFUNDED LIABILITIES

The Administration remains committed to the security of state retiree benefits and the long-term sustainability of state pension systems. Over the last decade, the state implemented significant measures to address its retirement liabilities through public pension law reform, implementation of funding strategies to pay down unfunded pension and retiree health benefits, and the allocation of billions of dollars in supplemental funding beyond the required annual contributions to the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS). The Budget includes:

- **State Employees' Retirement Contributions**—\$9.1 billion (\$4.9 billion General Fund) for the statutorily required annual contribution to CalPERS for state pension costs in 2025-26. This is an increase of \$2.3 billion (\$1.5 billion General Fund) as compared to the 2024 Budget Act. The 2024 Budget Act reflects the application of the one-time \$1.7 billion Proposition 2 supplemental pension payment made to CalPERS in 2023 toward state plans' unfunded liabilities, resulting in lower required contributions in 2024-25. Of the \$9.1 billion state contributions for 2025-26, \$744.1 million General Fund are included for California State University retirement costs. Additionally, the Budget includes \$1.5 billion one-time Proposition 2 debt repayment funding as a supplemental payment toward the state plans' unfunded liabilities.
- **Teachers' Retirement Contributions**—\$4.6 billion General Fund for the statutorily required annual state contribution to CalSTRS in 2025-26. The roughly \$367 million increase from the 2024 Budget Act is due to higher-than-anticipated growth in creditable compensation from 2022-23 to 2023-24.
- **State Health Care Benefits**—\$385 million in one-time Proposition 2 debt repayment funding in 2025-26 for the employer's share of contributions to pay for future retiree health benefits.

The State Retirement and Health Care Contributions figure provides a historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), the Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS) for pension and health care benefits.

State Retirement and Health Care Contributions ^{1/2/3/}
(Dollars in Millions)

| | CalPERS | CSU CalPERS | CalSTRS | JRS | JRS II | LRS ^{5/} | Active Health & Dental ^{6/} | Retiree Health & Dental | CSU Retiree Health | Employer OPEB Prefunding ^{7/} |
|------------------------|---------|----------------|---------------------|-------|--------|-------------------|--|-------------------------------|--------------------------|--|
| 2016-17 | \$4,754 | \$621 | \$2,473 | \$202 | \$68 | \$1 | \$3,104 | \$1,623 | \$272 | \$342 ^{8/} |
| 2017-18 | 5,188 | 661 | 2,790 | 199 | 80 | 1 | 3,192 | 1,695 | 285 | 189 |
| 2018-19 | 5,506 | 683 | 3,082 | 194 | 84 | 1 | 3,255 | 1,759 | 313 | 394 |
| 2019-20 | 5,946 | 716 | 3,323 | 242 | 91 | 1 | 3,371 | 1,844 | 326 | 562 |
| 2020-21 | 4,925 | 680 | 3,428 ^{4/} | 225 | 84 | 1 | 3,398 | 1,938 | 339 | 600 |
| 2021-22 | 5,363 | 677 | 3,862 | 194 | 91 | 1 | 3,501 | 2,019 | 356 | 1,292 ^{9/} |
| 2022-23 | 7,475 | 744 | 3,712 | 208 | 86 | 1 | 3,731 | 2,208 | 392 | 735 |
| 2023-24 | 7,728 | 744 | 3,939 | 211 | 89 | 0 | 4,139 | 2,417 | 428 | 711 |
| 2024-25 | 6,251 | 609 | 4,257 | 217 | 92 | 0 | 4,574 | 2,723 | 484 | 663 |
| 2025-26 ^{10/} | 8,370 | 744 | 4,624 | 181 | 101 | 0 | 5,012 | 3,030 | 542 | 716 |

^{1/} The chart does not include contributions for the University of California pension or retiree health care costs.

^{2/} The chart does not reflect the following pension payments: \$6 billion supplemental payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84), additional payments to CalPERS and CalSTRS authorized in Chapter 33, Statutes of 2019 (SB 90), Chapter 859, Statutes of 2019 (AB 118), Chapter 78, Statutes of 2021 (AB 138), Chapter 67, Statutes of 2022 (SB 191), Chapter 39, Statutes of 2023 (AB 130), Chapter 52, Statutes of 2024 (AB 171), and Proposition 2 payments to CalPERS proposed in the 2025-26 Governor's Budget.

^{3/} In addition to the Executive Branch, this chart includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS. Amounts displayed in the CalPERS column include statewide contributions to the five CalPERS state plans, including contributions from employers that are not included in the annual Budget Act.

^{4/} As part of the 2020 Budget Act, the Teachers' Retirement Board's statutory authority to adjust the state contribution rate for fiscal year 2020-21 was suspended. The amount shown excludes the additional \$297 million in supplemental pension payment from Proposition 2 debt payment funding authorized in the 2021 Budget Act.

^{5/} In 2023-24, no state employer contributions to the Legislators' Retirement System are included as the fund was in a surplus position due to the termination of all active members. In 2024-25, a one-time contribution of \$75,085 was required due to negative impacts of investment losses and cost of living adjustments to the fund. In 2025-26, no state employer contributions are expected to be paid to LRS because the 2024-25 one-time contribution returned the plan to 100 percent funded status.

^{6/} These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and the California State University (CSU).

^{7/} Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

^{8/} Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

^{9/} Amount includes \$616 million to help ensure full funding by 2046, which is provided by the employer on behalf of the employees, based on the actuarial liability for each bargaining unit, as employee prefunding contributions were suspended in 2020-21 due to the Personal Leave Program 2020.

^{10/} Estimated as of the 2025-26 Governor's Budget, contributions sourced from the General Fund are estimated to be \$4.2 billion for CalPERS, \$744 million for CSU CalPERS, \$2.4 billion for Active Health and Dental, and \$383 million for OPEB Prefunding. Fiscal year 2025-26 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are funded entirely by the General Fund.

GOVERNMENT EFFICIENCY AND COST SAVING MEASURES

To achieve a balanced budget and further promote government efficiencies, the Budget assumes permanent reductions to nearly all state departments' budgets beginning in 2024-25.

The 2024 Budget Act estimated efficiencies in state government by eliminating up to 10,000 vacant positions in 2025-26 and reducing state operations expenditures by up

to 7.95 percent beginning in 2024-25. By working with departments through the first half of the fiscal year on preliminary savings plans, the Administration identified a significant portion of previously estimated positions and state operations expenditures as critical to public safety, fire safety, 24-hour staffing requirements, and delivery of mission-critical public benefits. These positions and expenditures were left intact. The Administration continues to work with departments to identify specific program areas for efficiencies while minimizing public impact.

- **Vacant Positions Funding Reduction and Elimination of Positions**—\$617.6 million (\$234.4 million General Fund) in 2024-25, and ongoing, for savings associated with vacant positions and the elimination of approximately 6,500 positions starting in 2025-26, and ongoing.
- **State Operations Ongoing Reductions**—\$1.5 billion (\$820 million General Fund) in 2024-25, and \$2 billion (\$1.2 billion General Fund) in 2025-26, and ongoing, reduction to state operations. This reduction includes personal services, operating expenses and equipment, and consulting and professional services costs.